

Muskegon Area Intermediate School District

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

Muskegon Area Intermediate School District

TABLE OF CONTENTS

Management's Discussion and Analysis.....	i - ix
Independent Auditors' Report.....	1
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets.....	3
Statement of Activities	4
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances	7
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	8
Internal Service Funds	
Statement of Net Assets.....	9
Statement of Revenues, Expenses and Changes in Fund Net Assets	10
Statement of Cash Flows	11
Statement of Fiduciary Assets and Liabilities.....	12
Notes to Financial Statements	13
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund	29
Budgetary Comparison Schedule—Special Education Fund.....	30
Budgetary Comparison Schedule—Cooperative Education Fund	31
Budgetary Comparison Schedule—Vocational Education Fund	32
Other Supplemental Information	
Other Governmental Funds	
Combining Balance Sheet.....	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	35

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be Muskegon Area Intermediate School District Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

The Governmental Accounting Standards Board in their Statement No. 34 adopted this new reporting model; *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* in June 2000.

Generally accepted accounting principles according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Muskegon Area Intermediate School District as a whole. The *District-wide Financial Statements* provide information about the activities of the whole Intermediate School District, presenting both an aggregate view of the Intermediate School District's finances and a longer-term view of those finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Intermediate School District's operations in more detail than the district-wide financial statements by providing information about the Intermediate School District's most significant funds: the General Fund, Special Education Fund, Vocational Education (Career Tech Center) Fund, and Cooperative Education (Head Start) Fund.

Reporting the Intermediate School District as a Whole ***District-Wide Financial Statements***

The district-wide financial statements include the statement of net assets and the statement of activities. These statements, which appear first in the Intermediate School District's financial statements, report information on the Intermediate School District as a whole and its activities in a way to provide an easy-to-understand overview of the Intermediate School District's financial position and results of operations for the year. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Muskegon Area Intermediate School District's net assets (the difference between assets and liabilities, as reported in the statement of net assets) as one way to measure the Intermediate School District's financial health or financial position. The statement of net assets and statement of activities report the governmental activities of the Muskegon Area Intermediate School District, which encompass all of the Intermediate School District's services, including instruction, supporting services, and community services. Property taxes, state aid, and federal grants finance most of these activities.

Over time, increases or decreases in the Intermediate School District's net assets (as reported in the statement of activities) are indicators of whether its financial health is improving or

deteriorating. The relationship between revenues and expenses is the Intermediate School District's operating results. However, Muskegon Area Intermediate School District exists to provide services to our local school districts, their staff, and the students they serve. Consideration of other non-financial factors, such as the quality of services provided, is needed to assess the overall health of the Muskegon Area Intermediate School District.

The Intermediate School District's mission is to provide the leadership, programs and services that complement and enhance the efforts of the constituent school districts in extending educational opportunities to all students. The Intermediate School District does not focus on generating profits as commercial entities do. The Intermediate School District accomplishes its mission through innovative partnerships, technology, training, professional development and research.

The Intermediate School District offers a wide range of services focused on improving learning. The Intermediate School District serves twelve local public school districts, along with nonpublic, charter schools and other school districts outside of our county.

Created by State legislation in 1962 to serve local schools and act as a liaison between them and the Michigan Department of Education, the Intermediate School District is one of 57 intermediate school districts in the state. The Intermediate School District is a shared-community resource, providing an extensive network of supportive service that helps families and local schools successfully grow preschoolers into graduates and lifelong learners.

Reporting the Intermediate School District's Most Significant Funds Fund Financial Statements

The Intermediate School District's fund financial statements provide detailed information about the most significant funds—not the district as a whole. Some funds are required to be established by State law and bond covenants. However, the Intermediate School District has established other funds to help it control and manage money for particular purposes. The governmental funds of the Intermediate School District use the following accounting approach:

All of the Intermediate School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Intermediate School District's programs. The audited financial statements describe the relationship or differences between governmental activities reported in the fund financial statements and the district-wide financial statements in a reconciliation schedule.

The Intermediate School District's Funds

The Intermediate School District uses funds to help control and manage money for specific purposes. Looking at funds helps the reader consider whether the Intermediate School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Intermediate School District's overall financial health.

As the Intermediate School District completed this year, the governmental funds reported a combined fund balance of \$13.9 million, which is an increase of approximately \$2.0 million from last year.

- The General Fund reflects a fund balance increase of \$217,850 from the prior year. Revenues increased by approximately 7.23% from prior year levels primarily due to increase in local revenues such as property taxes, printing, investment income and transfers in primarily due to higher administrative fees from other funds and recognition of deferred revenues. The expenditures increased by 7.79% primarily due to increases in salaries, benefits and capital projects such as the media upgrades in our all conference rooms.
- In the Special Education Fund, our largest fund, the fund balance increased by \$85,250 to \$1,154,953. This actual amount is larger than the budgeted increase of \$34,639. Revenues increased 4.38% while expenditures increased by 4.46% in comparison with the prior year. Overall, actual Special Education revenues were within 98.2% and expenses were within 98.1% of budgeted amounts.
- The Vocational Education Fund experienced a fund balance increase of \$1,682,043. In September 2002, voters approved a 1.0 mill tax levy for the new Muskegon Area Career Tech Center to be located on the Muskegon Community College campus. The fund balance at year end reflects property tax collections from the current year to be applied to building construction and leasing costs, classroom setups, and ongoing staffing and operational needs of our new Career Tech Center. This countywide centralized program began administrative operations in October of 2002. Classrooms in the newly built facility began in January 2005. Construction of the centralized Career Tech Center building was completed in June 2005.

The Intermediate School District as a Whole

The statement of net assets provides the perspective of the Intermediate School District as a whole. Table 1 provides a summary of the Intermediate School District's net assets as of June 30, 2006.

Table 1

	2004-05 Governmental Activities (in millions)	2005-06 Governmental Activities (in millions)
Assets		
Current and other assets	\$ 28.6	\$ 30.9
Capital assets – Net of accumulated depreciation	5.8	5.9
Total Assets	\$ 34.4	\$ 36.8
Liabilities		
Current liabilities	\$ 16.7	\$ 17.0
Long-term liabilities	1.1	1.1
Total Liabilities	\$ 17.8	\$ 18.1
Net Assets		
Invested in property and equipment – Net of related debt	\$ 5.2	\$ 5.3
Restricted	8.2	10.0
Unrestricted	3.1	3.4
Total Net Assets	\$ 16.5	\$ 18.7

The aforementioned analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Intermediate School District's governmental activities is discussed below. The District's net assets were \$18.7 million at June 30, 2006. Capital assets, net of related debt compares the original cost, less accumulated depreciation of the Intermediate School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be paid from currently held investments. A portion of net assets, \$10.0 million, is legally restricted for special and vocational education programs, debt payments and donor-designated purposes. The remaining amount of net assets, \$3.4 million, was unrestricted. The operating results of all four major funds will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Intermediate School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2006. Since this is the fourth year the Intermediate School District has prepared financial statements following GASB Statement 34, revenue and expense comparison to fiscal year 2005 is available.

Table 2

	2004-05 Governmental Activities (in millions)	2005-06 Governmental Activities (in millions)
Revenue		
Program Revenue		
Charges for services	\$ 3.6	\$ 3.0
Grants and categoricals	23.2	25.0
General revenue		
Property taxes	14.2	15.1
Unrestricted state aid	7.1	7.2
Other	.3	.9
Total Revenue	\$ 48.4	\$ 51.2

FY2006 Revenues - \$51.2 Million

FY2005 Revenues - \$48.4 Million

Revenue Comparison

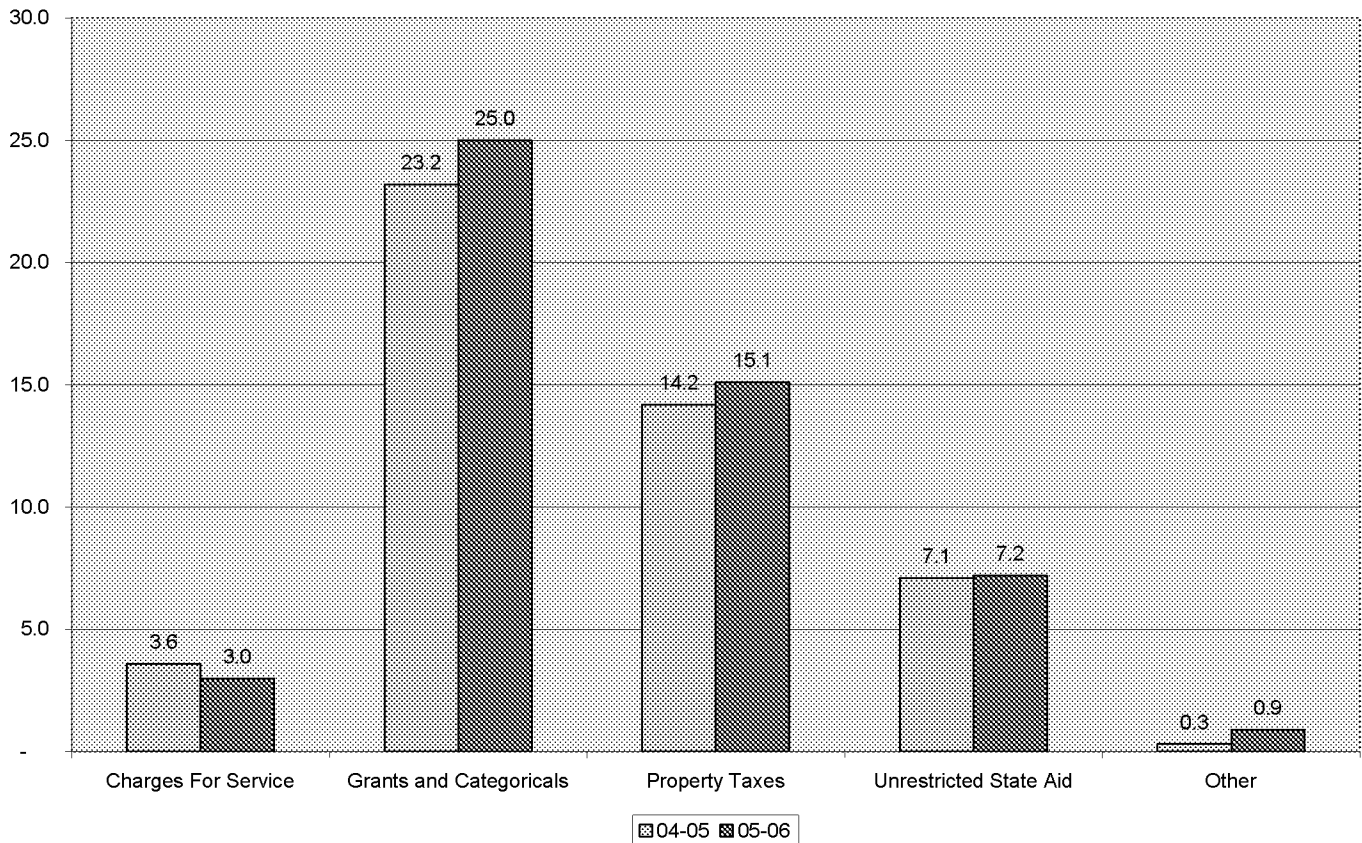
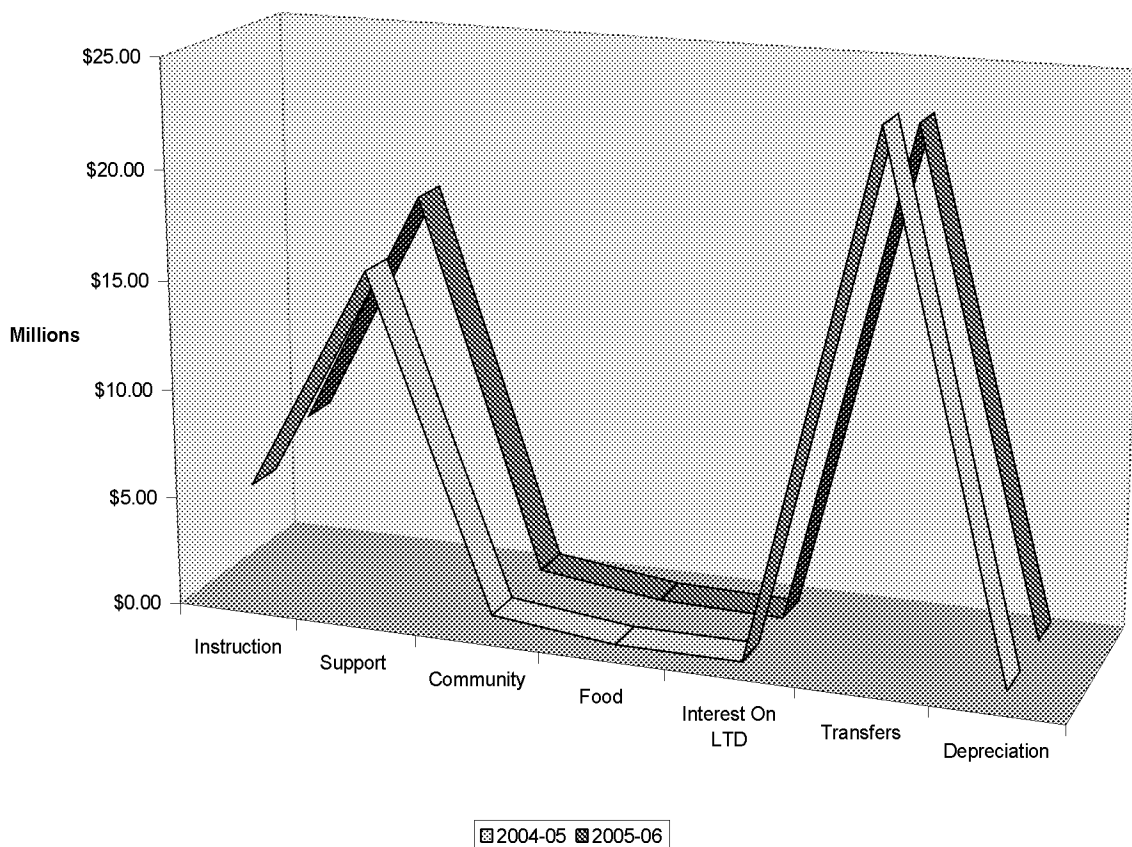


Table 2 (cont'd)

Function/Program Expenses	2004-05		2005-06	
	Governmental Activities (in millions)		Governmental Activities (in millions)	
Instruction	\$	5.4	\$	6.9
Support services		15.8		17.8
Community services		.7		.8
Food services		.1		.1
Interest on long-term debt		.1		.0
Inter-district transfers		24.0		22.9
Unallocated depreciation		.4		.5
Total Expenses	\$	46.5	\$	49.0

FY2006 Expenses - \$49.0 Million
FY2005 Expenses - \$46.5 Million

Comparison of Expenses



As reported in the statement of activities, the cost of all our governmental activities this year was \$49.0 million. Certain activities were partially funded by those who benefited from the programs(\$3.0M) or by other governments and organizations that subsidized certain programs with grants and categorical aid(\$25.0M). The Muskegon Area Intermediate School District paid for the remaining "public benefit" portion with \$15.1 million in property tax revenue, \$8.0 million in unrestricted state aid, and with other revenues, such as interest income. Additionally, the Muskegon Area Intermediate School District experienced an increase in net assets of \$2.2 million.

The net cost shows the financial burden that was placed on the Muskegon Area Intermediate School District taxpayers and on the State. Since property taxes for operations and unrestricted state aid constitute the majority of Intermediate School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the Intermediate School District and the local districts it serves and balance those needs with available tax revenues and unrestricted state aid revenue.

Governmental Fund Budgetary Highlights

Over the course of the fiscal year, the Intermediate School District revises its budget as we attempt to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Material changes to original budgets for the General, Special Education, Vocational Education, and Cooperative Education fund budgets are as follows:

- General Fund: Budgeted revenues increased due to smaller reduction of state cuts than expected and budgeted revenues and expenditures increased based upon increases in the initial amounts of federal and state grants and the addition of new grants.
- Special Education Fund: Budgeted revenues and expenditures increased based upon increases in the initial amounts of federal and state grants. The transportation consortium budget adjustments also affect the variances between the original and final budgets.
- Vocational Education Fund: Revenue adjustments reflect an increase over the original budget amounts due to additional tax revenues and additional state and federal grants income and expenditures remained approximately the same as the previous year. A full instructional program began with the Fall 2005.
- Cooperative Education Fund: The year end for our federal Head Start program is November, which creates budgeting difficulties in compliance with the Intermediate School District's fiscal year end. Total grant award amounts are initially budgeted, and then later adjusted to reflect a more accurate spending pattern for this large federal grant.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006 the Intermediate School District had \$11.3 million invested in capital assets. This amount represents a net increase, including additions and deletions, of \$558,391 or 4.98%, from last year.

	2005	2006
Land	\$ 100,500	\$ 100,500
Buildings & Improvements	8,236,156	8,258,556
Buses and other vehicles	1,200,454	1,391,819
Furniture and equipment	1,206,454	1,551,080
Total capital assets	\$ 10,743,564	\$ 11,301,955
Less accumulated depreciation	5,542,081	5,985,834
Net Capital Assets	\$ 5,201,483	\$ 5,316,121

This year's deductions of \$ 70,292 less \$7,619 accumulated depreciation for net deductions of \$63,373 included vehicles, and equipment. This year's additions equal \$629,383 less accumulated depreciation of \$451,372 for net additions of \$178,011. Additions include building and improvements, vehicles and equipment. Overall Net Capital Assets increased by \$114,638 or 2.16%.

The Intermediate School District issued \$750,000 Bonds in 2003 related to the construction of a Fiber Optic System. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Intermediate School District's ability to use those net assets for unrestricted day-to-day operations. The remaining amount of net assets, \$3,404,989 was unrestricted.

Debt Administration

At June 30, 2006, Muskegon Area Intermediate School District had \$1,113,131 in bonds outstanding. Those bonds are Durant obligation bonds at \$503,131 that are the responsibility of the State of Michigan and 2003 Fiber Optic System Bonds at \$610,000.

	2005	2006
Durant Bond Obligations	\$ 544,376	\$ 503,131
2003 Fiber Optic System Bonds	680,000	610,000
Total Outstanding Debt	\$ 1,224,376	\$ 1,113,131

The State limits the amount of general obligation debt that intermediate school districts can issue without a vote of the electors. The debt limit is limited to 1/9 of 1 % of the state equalized valuation of the taxable property within the Intermediate School District. If the Intermediate School

District issues "qualified debt", i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit.

The Durant obligation is payable in annual installments ranging from \$43,198 to \$203,569 including interest at 4.76% due May 2007 to 2013. The Intermediate School District is obligated to make the annual principal and interest payments only to the extent of annual State of Michigan state school aid appropriations for such installments. The 2003 Fiber Optic System Bonds is payable in annual installments ranging from \$70,000 to \$85,000 due May 1 2007 to 2014, plus interest ranging from 2.5 to 3.85% payable semi-annually.

Economic Factors and Next Year's Budgets

As compared to the local school districts within the Muskegon Area Intermediate School District, the Intermediate School District is more dependent on property tax revenue and less dependent on state aid. Muskegon Area Intermediate School District exists to provide services to local school districts, their staff, and the students they serve. Local district needs determine the nature and focus of our service efforts. The challenges our local districts currently face include: an economic downturn that limits revenue while cost levels continue to increase, a general decline in student population, increased professional development needs due to the requirements of No Child Left Behind Act and other legislation, changes in special education laws and increased emphasis on early identification of children with special needs, and the loss of experienced teaching and administrative staff, to name just a few. All of these factors have an economic impact and directly affect the scope of our service effort.

The MAISD Board of Education has approved an election to be held on February 27, 2007 for the purpose of requesting a 1 mill countywide tax for 20 years for special education purposes. The millage is estimated to generate approximately \$4 million in the first year. All the funds generated from the millage will be distributed to locals. An additional \$600,000 is expected to be generated in the second year from additional state aid reimbursement.

The Michigan legislature approved the 2006-2007 state school aid budget in August 2006. There are indications at this time from the State's Fiscal Agency that state revenue collections will be less than that required to fund the 2006-2007 school aid budget and a funding proration is possible later on this current year. The impact of a reduced funding level, should that occur, would have a direct impact on our local districts and the nature of the services they require from the Muskegon Area Intermediate School District.

Contacting the School District's Financial Management

This financial report is designed to provide a general overview of the Muskegon Area Intermediate School District's finances for all those with an interest in the Intermediate School District's finances. If you have questions about this report or need additional information, contact Marios Demetriou, Associate Superintendent for Administrative Services, 630 Harvey Street, Muskegon, MI 49442, phone 231-767-7207, fax 231-773-3498 or Email mdemetri@muskegonisd.org.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 19, 2006

Board of Education
Muskegon Area Intermediate School District
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Muskegon Area Intermediate School District (the School District), as of and for the year ended June 30, 2006, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Muskegon Area Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Muskegon Area Intermediate School District, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 19, 2006, on our consideration of Muskegon Area Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education
October 19, 2006
Page 2

The management's discussion and analysis and budgetary comparison information on pages i -ix and 29 - 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements on pages 34 - 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Muskegon Area Intermediate School District
STATEMENT OF NET ASSETS
June 30, 2006

	ASSETS	Governmental activities
CURRENT ASSETS		
Cash and cash equivalents		\$ 14,282,968
Investments		6,543,254
Receivables		23,847
Due from other governmental units		10,049,904
Prepaid expenses		41,059
Total current assets		30,941,032
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		100,500
Depreciable		5,215,621
Notes and interest receivable		530,935
Total noncurrent assets		5,847,056
Total assets		36,788,088
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		6,339,424
Due to other governmental units		9,484,952
Deferred revenue		1,033,442
Bonds and other obligations, due within one year		113,200
Total current liabilities		16,971,018
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year		999,931
Accrued interest		73,779
Total noncurrent liabilities		1,073,710
Total liabilities		18,044,728
NET ASSETS		
Invested in capital assets, net of related debt		5,316,121
Restricted		
Special Education		1,154,953
Vocational Education		8,867,297
Unrestricted		3,404,989
Total net assets		\$ 18,743,360

The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

		Program Revenue		Net (Expense)
				Revenue and
				Changes in
				Net Assets
<i>Functions/Programs</i>	<u>Expenses</u>	<u>Charges for</u>	<u>Operating grants</u>	<u>Governmental</u>
		<u>services</u>	<u>and contributions</u>	<u>activities</u>
Governmental activities				
Instruction	\$ 6,909,344	\$ 38,398	\$ 246,284	\$ (6,624,662)
Support services	17,806,036	952,758	8,772,577	(8,080,701)
Community services	759,429	-	1,572,331	812,902
Food services	97,558	5,004	89,061	(3,493)
Interest on long-term debt	39,428	-	-	(39,428)
Interdistrict transfers	22,880,042	2,028,749	14,343,139	(6,508,154)
Unallocated depreciation	451,372	-	-	(451,372)
Total governmental activities	<u>\$ 48,943,209</u>	<u>\$ 3,024,909</u>	<u>\$ 25,023,392</u>	(20,894,908)
General revenues				
Property taxes levied for				
General purposes				1,892,577
Special education				9,196,423
Vocational education				3,995,391
Grants and contributions not restricted to specific programs				7,182,287
Investment earnings				826,634
Miscellaneous				28,403
Loss on sale of capital assets				(8,840)
Total general revenues				<u>23,112,875</u>
Change in net assets				2,217,967
Net assets at July 1, 2005				<u>16,525,393</u>
Net assets at June 30, 2006				<u>\$ 18,743,360</u>

The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District

BALANCE SHEET

Governmental Funds

June 30, 2006

	General Fund	Special Education	Cooperative Education	Vocational Education	Other governmental funds	Total governmental funds
ASSETS						
Cash and cash equivalents	\$ 1,057,189	\$ 2,566,333	\$ -	\$ 9,122,360	\$ 1,537,085	\$ 14,282,967
Investments	2,548,836	3,953,799	-	40,619	-	6,543,254
Taxes receivable	448	2,240	-	974	-	3,662
Accounts receivable	-	-	-	5,303	18,544	23,847
Due from other governmental units	712,027	7,609,811	716,918	477,621	4,805	9,521,182
Due from other funds	41,151	-	5,816	-	229,301	276,268
Prepaid expenses	26,431	7,221	4,640	2,767	-	41,059
Total assets	<u>\$ 4,386,082</u>	<u>\$ 14,139,404</u>	<u>\$ 727,374</u>	<u>\$ 9,649,644</u>	<u>\$ 1,789,735</u>	<u>\$ 30,692,239</u>
LIABILITIES AND FUND BALANCES						
Accounts payable	\$ 65,628	\$ 4,396,407	\$ 2,698	\$ 25,286	\$ 749,975	\$ 5,239,994
Accrued liabilities	100,896	364,600	20,133	159,463	-	645,092
Due to other governmental units	158,981	8,154,206	679,372	492,393	-	9,484,952
Due to other funds	279,210	44,039	25,171	1,818	11,951	362,189
Deferred revenue	904,856	25,199	-	103,387	-	1,033,442
Total liabilities	1,509,571	12,984,451	727,374	782,347	761,926	16,765,669
Fund balances						
Reserved						
Prepaid expenses	26,431	7,221	-	2,767	-	36,419
Capital projects	-	-	-	-	1,017,490	1,017,490
Unreserved						
Designated for ISD wide projects	-	262,526	-	-	-	262,526
Designated for special education facilities	-	501,919	-	-	-	501,919
Designated for vocational education	-	-	-	8,842,780	-	8,842,780
Designated for compensated absences	71,982	83,287	-	21,750	-	177,019
Undesignated						
General Fund	2,778,098	-	-	-	-	2,778,098
Special Education	-	300,000	-	-	-	300,000
School service	-	-	-	-	10,319	10,319
Total fund balances	<u>2,876,511</u>	<u>1,154,953</u>	<u>-</u>	<u>8,867,297</u>	<u>1,027,809</u>	<u>13,926,570</u>
Total liabilities and fund balances	<u>\$ 4,386,082</u>	<u>\$ 14,139,404</u>	<u>\$ 727,374</u>	<u>\$ 9,649,644</u>	<u>\$ 1,789,735</u>	<u>\$ 30,692,239</u>

The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
June 30, 2006

Total fund balance—governmental funds	\$	13,926,570
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.

Cost of capital assets	\$ 11,301,955	
Accumulated depreciation	<u>(5,985,834)</u>	5,316,121

Other long-term note and interest receivable in governmental activities is not reported in the governmental funds.

601,658

Accrued interest in governmental activities is not reported in the governmental funds.

(73,779)

Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

(1,113,131)

Internal service funds fund balances are not part of the governmental funds, but are reported in the Statement of Net Assets

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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>18,657,439</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2006

	General Fund	Special Education	Cooperative Education	Vocational Education	Other governmental funds	Total governmental funds
REVENUES						
Local sources						
Property taxes	\$ 1,890,588	\$ 9,191,065	\$ -	\$ 3,939,732	\$ -	\$ 15,021,385
Medicaid reimbursement	-	2,083,965	-	-	-	2,083,965
Investment earnings	130,206	238,467	-	396,143	65,049	829,865
Drivers education / poly plot	7,115	-	-	-	-	7,115
Tuition / fees	221,677	-	2,810	-	-	224,487
Rental income	4,048	77,426	-	-	-	81,474
Resale charges	273,821	-	-	-	-	273,821
Data processing	60,826	-	-	-	-	60,826
Printing	271,865	-	-	-	-	271,865
Other	224,266	124,004	-	191,748	2,155	542,173
Total local sources	3,084,412	11,714,927	2,810	4,527,623	67,204	19,396,976
State sources	1,435,431	7,303,302	-	1,605,250	66,149	10,410,132
Federal revenues	1,028,668	7,471,873	5,866,383	934,952	82,749	15,384,625
Total revenues	5,548,511	26,490,102	5,869,193	7,067,825	216,102	45,191,733
EXPENDITURES						
Instruction	20,711	4,477,115	-	2,640,784	-	7,138,610
Support services	6,280,354	8,571,166	817,379	2,082,581	-	17,751,480
Community services	49,073	32,818	696,375	-	-	778,266
Food services	-	-	-	-	97,558	97,558
Debt service						
Principal	-	-	-	-	111,245	111,245
Interest and other charges	-	-	-	-	40,250	40,250
Capital projects	-	-	-	-	333,326	333,326
Total expenditures	6,350,138	13,081,099	1,513,754	4,723,365	582,379	26,250,735
Excess (deficiency) of revenues over (under) expenditures	(801,627)	13,409,003	4,355,439	2,344,460	(366,277)	18,940,998
OTHER FINANCING SOURCES (USES)						
Transfers from other governmental units and other transactions	874,917	4,429,140	-	18,927	198,518	5,521,502
Proceeds from sale of equipment	-	-	2,687	-	-	2,687
Transfers in	872,570	-	-	-	217,851	1,090,421
Transfers out	(217,851)	(578,322)	-	(294,248)	-	(1,090,421)
Transfers to other governmental units and other transactions	(510,159)	(17,174,571)	(4,358,126)	(387,096)	-	(22,429,952)
Total other financing sources (uses)	1,019,477	(13,323,753)	(4,355,439)	(662,417)	416,369	(16,905,763)
Net change in fund balances	217,850	85,250	-	1,682,043	50,092	2,035,235
Fund balances at July 1, 2005	2,658,661	1,069,703	-	7,185,254	977,717	11,891,335
Fund balances at June 30, 2006	\$ 2,876,511	\$ 1,154,953	\$ -	\$ 8,867,297	\$ 1,027,809	\$ 13,926,570

The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	2,035,235
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of
Activities these costs are depreciated over their estimated useful lives.

Capital outlay	\$ 629,383	
Depreciation expense	<u>(451,372)</u>	178,011

Governmental funds report the entire proceeds from sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.	(63,373)
---	----------

Principal payments received on notes receivable are reported as revenue in the governmental funds, but the payment reduces long-term assets in the Statement of Net Assets.	(2,161)
---	---------

Interest income on long-term note receivable is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until received.	(245)
---	-------

Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.	(41,245)
---	----------

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	111,245
--	---------

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	823
---	-----

The net revenue (expense) of certain activities of internal service funds are not reported in the governmental funds, but are reported in the Statement of Activities.	<u>(323)</u>
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Change in net assets of governmental activities	\$	<u><u>2,217,967</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District
STATEMENT OF NET ASSETS
Internal Service Funds
June 30, 2006

ASSETS

Due from other funds	\$ 85,921
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LIABILITIES AND NET ASSETS

Liabilities	<u>-</u>
-------------	----------

Net assets	
Unrestricted	\$ <u><u>85,921</u></u>

The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Internal Service Funds
For the year ended June 30, 2006

REVENUES

Charges for services	\$ -
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EXPENSES

Costs of services	<u>323</u>
-------------------	------------

Change in net assets	(323)
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Net assets at July 1, 2005	<u>86,244</u>
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Net assets at June 30, 2006	<u><u>\$ 85,921</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District
STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended June 30, 2006

Cash flows from operating activities	
Payments for premiums and claims	\$ 323
Payments from other funds for services	<u>(323)</u>
Net increase in cash	-
Cash balances at July 1, 2005	<u>-</u>
Cash balances at June 30, 2006	<u><u>\$ -</u></u>
 Cash flows from operating activities	
Change in net assets	\$ (323)
Adjustments to reconcile change in net assets	
to net cash provided by operating activities	
(Increase) decrease in operating assets	
Due from other funds	<u>323</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

Fiduciary Funds

June 30, 2006

		<u>Agency funds</u>	
	<u>Combined</u>	<u>Student activities</u>	<u>Fiber consortium</u>
ASSETS			
Cash and cash equivalents	\$ 32,915	\$ 32,915	\$ -
Accounts receivable	<u>709,308</u>	<u>-</u>	<u>709,308</u>
	<u>\$ 742,223</u>	<u>\$ 32,915</u>	<u>\$ 709,308</u>
LIABILITIES			
Deposits held for others	<u>\$ 742,223</u>	<u>\$ 32,915</u>	<u>\$ 709,308</u>

The accompanying notes are an integral part of this statement.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Area Intermediate School District (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected five-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds, internal service funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its special education, cooperative education and vocational education activities in the special revenue funds.

The other nonmajor governmental funds are reported within the following types:

- The *Food Service Fund* accounts for resources utilized in the food service program as per Michigan Department of Education guidelines.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Internal service funds – Internal service funds account for expenses for unemployment services on a cost reimbursement basis.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

Proprietary funds' operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's internal service funds are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and Debt Retirement Fund is generally allocated to each fund using a weighted average of balances for the principal.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Property Taxes—Continued

For the year ended June 30, 2006, the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	0.4597
Special Education Fund - Homestead and non-homestead	2.2987
Vocational Education Fund - Homestead and non-homestead	0.9996

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	45 years
Buses and other vehicles	10 years
Furniture and other equipment	5-10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid expenses, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Assistant Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

The General Fund's outgoing transfers exceeded budget by \$177,876 due to the transfer of \$217,851 to the Capital Projects Fund. Special Education transportation expenses exceeded budget by \$375,959. Vocational Education transfers exceeded budget by \$71,213.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's Rating	Percent
MILAF external investment pool - MIMAX	\$ 1,543,254	1	AAAm	23.7 %
Fixed income portfolio - MILAF and TEAM A	<u>5,000,000</u>	<u>59</u>	<u>AAA</u>	<u>76.3</u>
Total fair value	<u>\$ 6,543,254</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>45</u>		

The School District voluntarily invests certain excess funds in external investment pools (Pools) which include money market funds. One of the Pools utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external investment pool of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The School District will accomplish this by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in the single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$15,798,160 of the School District's bank balance of \$16,098,160 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District will minimize custodial credit risk by limiting investment to the types of securities allowed by law and prequalifying the financial institutions, broker/dealer, intermediaries and advisors with which the School District will do business.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 100,500	\$ -	\$ -	\$ 100,500
Capital assets, being depreciated:				
Buildings and improvements	8,236,156	22,400	-	8,258,556
Equipment	1,206,454	358,924	14,298	1,551,080
Vehicles	1,200,454	248,059	56,694	1,391,819
Total capital assets, being depreciated	10,643,064	629,383	70,992	11,201,455
Less accumulated depreciation:				
Buildings and improvements	4,513,819	167,832	-	4,681,651
Equipment	429,102	129,233	7,619	550,716
Vehicles	599,160	154,307	-	753,467
Total accumulated depreciation	5,542,081	451,372	7,619	5,985,834
Total capital assets, being depreciated, net	5,100,983	178,011	63,373	5,215,621
Capital assets, net	\$ 5,201,483	\$ 178,011	\$ 63,373	\$ 5,316,121

Depreciation

Depreciation expense has been charged as unallocated depreciation.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Education Fund	\$ 2,211
General Fund	Vocational Education Fund	1,818
General Fund	Cooperative Education Fund	25,171
General Fund	Other governmental funds	11,951
Cooperative Education Fund	General Fund	5,816
Other governmental funds	General Fund	229,301
Internal Service Fund	General Fund	44,093
Internal Service Fund	Special Education Fund	41,828
		<u>\$ 362,189</u>

The outstanding balances between funds result mainly from the time lag between the dates the (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$217,851 to the Capital Project Fund, the Special Education Fund transferred \$578,322 to the General Fund and the Vocational Education Fund transferred \$294,248 to the General Fund. All transfers were to finance operations.

NOTE F—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2006:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due within</u> <u>one year</u>
Governmental activities:					
Bonds	\$ 1,224,376	\$ -	\$ 111,245	\$ 1,113,131	\$ 113,200

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

Durant obligations payable in annual installments ranging from \$43,198 to \$203,569 including interest at 4.76% due May 2007 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan appropriations.	\$ 503,131
2003 Fiber Optic System bonds payable in annual installments ranging from \$70,000 to \$85,000 due May 2007 to 2014; plus interest ranging from 2.5% to 3.85% payable semi-annually	<u>610,000</u>
Total bonded debt	<u>\$ 1,113,131</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 113,200	\$ 36,900	\$ 150,100
2008	120,300	33,100	153,400
2009	122,400	28,900	151,300
2010	278,500	92,900	371,400
2011	127,000	19,400	146,400
2012-2014	<u>351,731</u>	<u>26,782</u>	<u>378,513</u>
	<u>\$ 1,113,131</u>	<u>\$ 237,982</u>	<u>\$ 1,351,113</u>

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE G—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006, was 16.34 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$1,407,000, \$1,152,000, and \$975,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE G—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN—Continued

Post-retirement health care benefits – Pursuant to employment contracts and years of service, certain employees electing early retirement are provided post-retirement health care benefits which vary depending on the plan chosen and their age at retirement. Health care benefits terminate the month the person attains eligibility for full social security benefits, or dies, whichever comes first. The School District records expenditures for these benefits when premiums are due. Future benefits will be funded out of future revenues. The cost of these benefits for the year ended June 30, 2006 were approximately \$15,600 provided to twelve participants.

NOTE H—COMMITMENTS AND CONTINGENCIES

Commitments

- **Operating Leases** – The School District has lease agreements expiring at various dates through April 2011. Expense for the year ended June 30, 2006 was approximately \$62,000. The following is a schedule of future minimum rental payments required under operating leases for School District office equipment.

<u>Year ending June 30,</u>	<u>Amount</u>
2007	\$ 57,174
2008	57,174
2009	49,335
2010	10,136
2011	<u>8,293</u>
	<u>\$ 182,112</u>

The School District also entered into a lease of real property which terminates August 2008. The lease requires monthly payments of \$894 in the first year and \$920 in the second year. The School District is responsible for all operating costs and certain building maintenance items. The lease can be renewed for two additional years with a 3 percent monthly rent increase for each year.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—COMMITMENTS AND CONTINGENCIES—Continued

Commitments—Continued

- **Career Tech Center Lease** – The School District has entered into a lease with Muskegon Community College (College) to lease a Career Tech Center on the College campus. The lease payments are equivalent to the College's debt service needs of the \$8,070,000 bonds issued to construct the Career Tech Center, plus \$25,000 a year for capital maintenance. The following is a schedule of future minimum rental payments required under the lease.

Year ending June 30,	Amount
2007	\$ 596,730
2008	594,355
2009	611,855
2010	613,730
2011	628,680
2012-2016	3,211,565
2017-2021	3,337,390
2022-2023	1,361,240
	<u>\$ 10,955,545</u>

Contingencies

- **Litigation** - The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.
- **Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Muskegon Area Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 20.5 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Area Intermediate School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,934,303	\$ 3,276,885	\$ 3,084,412	\$ (192,473)
State sources	1,389,910	1,664,132	1,435,431	(228,701)
Federal sources	763,267	2,017,088	1,028,668	(988,420)
Incoming transfers and other transactions	1,602,363	1,794,842	1,747,487	(47,355)
Total revenues	6,689,843	8,752,947	7,295,998	(1,456,949)
EXPENDITURES				
Instruction				
Basic programs	-	2,168	1,034	1,134
Adult and continuing education	25,600	30,644	19,677	10,967
Support services				
Pupil	344,405	494,751	376,220	118,531
Instructional staff	2,322,915	3,563,282	2,247,573	1,315,709
General administration	586,328	488,396	445,624	42,772
School administration	111,278	113,230	104,694	8,536
Business	1,059,855	1,074,218	1,050,524	23,694
Operations and maintenance	304,634	335,566	287,676	47,890
Pupil transportation services	57,200	57,161	54,534	2,627
Central	1,753,149	1,941,031	1,713,509	227,522
Community services	35,588	62,221	49,073	13,148
Outgoing transfers and other transactions	261,381	550,134	728,010	(177,876)
Total expenditures	6,862,333	8,712,802	7,078,148	1,634,654
Excess (deficiency) of revenues over (under) expenditures	\$ (172,490)	\$ 40,145	217,850	\$ 177,705
Fund balance at July 1, 2005			2,658,661	
Fund balance at June 30, 2006			\$ 2,876,511	

Muskegon Area Intermediate School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
Special Education Fund
For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 10,647,432	\$ 11,798,911	\$ 11,714,927	\$ (83,984)
State sources	6,723,245	6,990,118	7,303,302	313,184
Federal sources	8,004,392	8,661,190	7,471,873	(1,189,317)
Incoming transfers and other transactions	3,885,000	4,012,742	4,429,140	416,398
Total revenues	29,260,069	31,462,961	30,919,242	(543,719)
EXPENDITURES				
Instruction				
Added needs	4,720,595	4,623,596	4,477,115	146,481
Support services				
Pupil	1,538,367	1,581,155	1,434,586	146,569
Instructional staff	964,552	1,190,694	974,833	215,861
General administration	94,800	179,802	190,986	(11,184)
School administration	468,150	464,820	458,599	6,221
Business	49,920	49,920	1,288	48,632
Operations and maintenance	861,122	818,961	753,419	65,542
Pupil transportation services	4,189,885	4,185,385	4,561,344	(375,959)
Central	179,331	231,334	196,111	35,223
Community services	12,000	34,500	32,818	1,682
Outgoing transfers and other transactions	16,033,091	18,068,155	17,752,893	315,262
Total expenditures	29,111,813	31,428,322	30,833,992	594,330
Excess (deficiency) of revenues over (under) expenditures	\$ 148,256	\$ 34,639	85,250	\$ 50,611
Fund balance at July 1, 2005			1,069,703	
Fund balance at June 30, 2006			\$ 1,154,953	

Muskegon Area Intermediate School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

Cooperative Education Fund
For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 1,750	\$ 2,812	\$ 2,810	\$ (2)
Federal sources	5,830,831	5,934,735	5,866,383	(68,352)
Incoming transfers and other transactions	<u>2,150</u>	<u>2,660</u>	<u>2,687</u>	<u>27</u>
Total revenues	5,834,731	5,940,207	5,871,880	(68,327)
EXPENDITURES				
Support services				
General administration	3,300	2,475	3,175	(700)
Business	79,935	80,831	79,648	1,183
Pupil transportation services	699,739	700,177	644,891	55,286
Central	101,848	95,986	89,665	6,321
Community services	680,320	724,972	696,375	28,597
Outgoing transfers and other transactions	<u>4,269,589</u>	<u>4,335,766</u>	<u>4,358,126</u>	<u>(22,360)</u>
Total expenditures	<u>5,834,731</u>	<u>5,940,207</u>	<u>5,871,880</u>	<u>68,327</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>-</u>	\$ <u>-</u>	-	\$ <u>-</u>
Fund balance at July 1, 2005			<u>-</u>	
Fund balance at June 30, 2006			\$ <u>-</u>	

Muskegon Area Intermediate School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
Vocational Education Fund
For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 4,110,364	\$ 4,452,948	\$ 4,527,623	\$ 74,675
State sources	1,666,304	1,408,554	1,605,250	196,696
Federal sources	584,887	962,149	934,952	(27,197)
Incoming transfers and other transactions	5,000	8,485	18,927	10,442
Total revenues	6,366,555	6,832,136	7,086,752	254,616
EXPENDITURES				
Instruction				
Added needs	2,040,192	2,846,915	2,635,259	211,656
Adult and continuing education	-	17,919	5,525	12,394
Support services				
Pupil	109,331	355,211	352,011	3,200
Instructional staff	465,632	488,426	377,949	110,477
General administration	8,795	11,065	13,548	(2,483)
School administration	440,551	425,641	420,114	5,527
Business	1,600	1,600	1,525	75
Operations and maintenance	893,814	894,904	831,597	63,307
Pupil transportation services	5,000	51,923	16,092	35,831
Central	68,346	79,021	69,745	9,276
Outgoing transfers and other transactions	1,738,064	610,131	681,344	(71,213)
Total expenditures	5,771,325	5,782,756	5,404,709	378,047
Excess (deficiency) of revenues over (under) expenditures	\$ 595,230	\$ 1,049,380	1,682,043	\$ 632,663
Fund balance at July 1, 2005			7,185,254	
Fund balance at June 30, 2006			\$ 8,867,297	

OTHER SUPPLEMENTAL INFORMATION

Muskegon Area Intermediate School District
COMBINING BALANCE SHEET
 Other Governmental Funds
 June 30, 2006

	Total other governmental funds	Food service	Capital projects	2003 Fiber capital project	Durant debt service
ASSETS					
Cash and cash equivalents	\$ 1,537,085	\$ 22,224	\$ 788,189	\$ 726,672	\$ -
Accounts receivable	18,544	-	-	18,544	-
Due from other governmental units	4,805	4,805	-	-	-
Due from other funds	229,301	-	229,301	-	-
Total assets	<u>\$ 1,789,735</u>	<u>\$ 27,029</u>	<u>\$ 1,017,490</u>	<u>\$ 745,216</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 749,975	\$ 4,759	\$ -	\$ 745,216	\$ -
Due to other funds	11,951	11,951	-	-	-
Total liabilities	761,926	16,710	-	745,216	-
Fund balances					
Unreserved					
Undesignated	1,027,809	10,319	1,017,490	-	-
Total fund balances	1,027,809	10,319	1,017,490	-	-
Total liabilities and fund balances	<u>\$ 1,789,735</u>	<u>\$ 27,029</u>	<u>\$ 1,017,490</u>	<u>\$ 745,216</u>	<u>\$ -</u>

Muskegon Area Intermediate School District
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

Other Governmental Funds
For the year ended June 30, 2006

	Total other governmental funds	Food service	Capital projects	2003 Fiber capital project	Durant debt service
REVENUES					
Local sources					
Investment earnings	\$ 65,049	\$ 5,004	\$ 52,358	\$ 7,687	\$ -
Other	2,155	-	-	2,155	-
Total local sources	67,204	5,004	52,358	9,842	-
State sources	66,149	6,312	-	-	59,837
Federal sources	82,749	82,749	-	-	-
Total revenues	216,102	94,065	52,358	9,842	59,837
EXPENDITURES					
Food services	97,558	97,558	-	-	-
Debt service					
Principal	111,245	-	-	70,000	41,245
Interest and other charges	40,250	-	-	21,658	18,592
Capital projects	333,326	-	93,226	240,100	-
Total expenditures	582,379	97,558	93,226	331,758	59,837
Excess (deficiency) of revenues over (under) expenditures	(366,277)	(3,493)	(40,868)	(321,916)	-
OTHER FINANCING SOURCES					
Transfers from other governmental units	198,518	-	-	198,518	-
Transfers in	217,851	-	217,851	-	-
Total other financing sources	416,369	-	217,851	198,518	-
Net change in fund balances	50,092	(3,493)	176,983	(123,398)	-
Fund balances at July 1, 2005	977,717	13,812	840,507	123,398	-
Fund balances at June 30, 2006	\$ 1,027,809	\$ 10,319	\$ 1,017,490	\$ -	\$ -

Muskegon Area Intermediate School District

**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2006

CONTENTS

FINANCIAL REPORTS AND INDEPENDENT AUDITORS' REPORTS

INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	3
---	---

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	4
---	---

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6
--	---

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	9
---	---

SCHEDULE OF FINDINGS AND QUESTIONED COSTS	10
---	----

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION.....	12
--	----

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS	13
---	----

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	23
---	----

CORRECTIVE ACTION PLAN.....	24
-----------------------------	----

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 19, 2006

Board of Education
Muskegon Area Intermediate School District
Muskegon, Michigan

We have audited the financial statements of the Muskegon Area Intermediate School District as of and for the year ended June 30, 2006 and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muskegon Area Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Muskegon Area Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 19, 2006

Board of Education
Muskegon Area Intermediate School District
Muskegon, Michigan

Compliance

We have audited the compliance of the Muskegon Area Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The Muskegon Area Intermediate School District's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Muskegon Area Intermediate School District's management. Our responsibility is to express an opinion on the Muskegon Area Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Muskegon Area Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Muskegon Area Intermediate School District's compliance with those requirements.

In our opinion, the Muskegon Area Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Board of Education
October 19, 2006
Page 2

Internal Control Over Compliance

The management of the Muskegon Area Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Muskegon Area Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Muskegon Area Intermediate School District as of and for the year ended June 30, 2006 and have issued our report thereon dated October 19, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Muskegon Area Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006
					Prior year	Current year	Total	
U.S. Department of Education								
Direct programs:								
Fund for the Improvement of Education								
U215X050040	84.215	\$ 886,130	\$ -	\$ 92,082	\$ -	\$ 93,852	\$ 93,852	\$ 1,770
Programs passed through Michigan								
Department of Education:								
Adult Basic Education	84.002							
041130-510585		18,000	18,000	18,000	18,000	-	18,000	-
051190-510585		7,292	7,292	7,292	7,292	-	7,292	-
051130-510585		207,500	124,368	124,368	207,500		207,500	-
061130-610586		180,400	-	146,030	-	180,400	180,400	34,370
061190-610586		7,300	-	6,910	-	7,300	7,300	390
		420,492	149,660	302,600	232,792	187,700	420,492	34,760
Title I	84.010							
041570-0405		40,000	11,677	16,769	34,908	5,092	40,000	-
051570-0506		40,000	-	34,117	-	40,000	40,000	5,883
		80,000	11,677	50,886	34,908	45,092	80,000	5,883
Handicapped Preschool and School Program	84.027							
040450-0304		5,882,918	113,628	113,628	985,291	-	985,291	-
050450-0405		6,765,492	1,446,107	2,202,647	5,805,835	959,657	6,765,492	203,117
050490-CB		83,529	28,388	28,388	83,529	-	83,529	-
060450-0506		6,945,461	-	4,216,841	-	5,796,418	5,796,418	1,579,577
060480-EOSD		55,000	-	55,000	-	55,000	55,000	-
060490-TS		90,000	-	80,859	-	90,000	90,000	9,141
		19,822,400	1,588,123	6,697,363	6,874,655	6,901,075	13,775,730	1,791,835
Voc Education Regional Allocation	84.048							
043260-50164		68,116	39,213	39,690	67,639	477	68,116	-
053520-501209		498,931	43,315	43,315	498,931	-	498,931	-
063520-6012-9		483,148	-	374,833	-	483,148	483,148	108,315
		1,050,195	82,528	457,838	566,570	483,625	1,050,195	108,315
Handicapped Preschool and School Program	84.173							
050460-0405		299,031	69,423	84,223	284,231	14,800	299,031	-
060460-0506		293,631	-	209,570	-	258,696	258,696	49,126
		592,662	69,423	293,793	284,231	273,496	557,727	49,126
Infant and Toddler Early Childhood Intervention Program	84.181							
041340-190		287,194	42,515	42,515	146,480	-	146,480	-
051340-190		241,984	20,934	99,794	160,920	81,064	241,984	2,204
061340-190		223,552	-	150,691	-	168,825	168,825	18,134
		752,730	63,449	293,000	307,400	249,889	557,289	20,338

Muskegon Area Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue #####
					Prior year	Current year	Total	
U.S. Department of Education—Continued								
Programs passed through Michigan Department of Education—continued								
Drug-Free Schools and Communities Act of 1986	84.186							
042860-0405		\$ 79,680	\$ 3,813	\$ 3,813	\$ 79,680	\$ -	\$ 79,680	\$ -
052860-0405		215,095	123,437	123,437	215,095	-	215,095	-
052860-0506		54,388	-	51,506	-	54,388	54,388	2,882
062860-0506		263,502	-	140,353	-	226,213	226,213	85,860
		612,665	127,250	319,109	294,775	280,601	575,376	88,742
Voc Education Technical Prep	84.243							
053540-501409		99,213	5,863	5,863	99,213	-	99,213	-
063540-6014-9		101,739	-	97,031	-	101,739	101,739	4,708
		200,952	5,863	102,894	99,213	101,739	200,952	4,708
Title V Part A Innovation	84.298							
040250-0405		31,328	24,563	24,563	31,328	-	31,328	-
050250-0405		17,460	7,798	7,798	-	-	-	-
050250-0506		20,511	-	20,511	-	20,511	20,511	-
060250-0506		27,900	-	8,674	-	8,841	8,841	167
		97,199	32,361	61,546	31,328	29,352	60,680	167
Title IIA, Teacher Quality Form	84.367							
060520-0506		475	-	475	-	475	475	-
Total passed through the Michigan Department of Education		23,629,770	2,130,334	8,579,504	8,725,872	8,553,044	17,278,916	2,103,874
Program passed through Department of Labor and Economic Growth:								
Federal Adult Education ABE Instruction	84.002A							
610586		23,000	-	-	-	23,000	23,000	23,000
Program passed through Eaton Intermediate School District								
Community Service Grant	84.184C							
042600-OCS03		5,500	-	5,500	-	5,500	5,500	-
Total U.S. Department of Education		24,544,400	2,130,334	8,677,086	8,725,872	8,675,396	17,401,268	2,128,644

Muskegon Area Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006
					Prior year	Current year	Total	
U.S. Department of Agriculture								
Programs passed through Michigan Department of Education:								
National School Lunch and Breakfast	10.555							
051950		5,385	309	1,227	4,467	918	5,385	-
051960		42,328	2,392	9,424	35,296	7,032	42,328	-
061950		5,036	-	4,663	-	5,036	5,036	373
061960		39,574	-	36,588	-	39,574	39,574	2,986
		92,323	2,701	51,902	39,763	52,560	92,323	3,359
National School Breakfast Program								
051970 Breakfast	10.553	18,437	1,072	4,152	15,357	3,080	18,437	-
061970 Breakfast		18,302	-	16,857	-	18,302	18,302	1,445
		36,739	1,072	21,009	15,357	21,382	36,739	1,445
Entitlement Commodities								
Bonus Commodities	10.550	7,937	-	7,937	-	7,937	7,937	-
		870	-	870	-	870	870	-
		8,807	-	8,807	-	8,807	8,807	-
Total U.S. Department of Agriculture		137,869	3,773	81,718	55,120	82,749	137,869	4,804
U.S. Department of Health and Human Services								
Direct programs								
Head Start	93.600							
05CH8258/06		5,925,573	1,137,412	3,689,853	3,367,994	2,552,441	5,920,435	-
05CH8258/07		5,912,478	-	2,605,228	-	3,313,943	3,313,943	708,715
		11,838,051	1,137,412	6,295,081	3,367,994	5,866,384	9,234,378	708,715
Program passed through the Community Mental Health Services of Muskegon County:								
Great Start Collaborative	93.575							
0401MICCDF/05		70,000	-	9,688	-	9,688	9,688	-
0401MICCDF/06		70,000	-	45,586	-	57,252	57,252	11,666
		140,000	-	55,274	-	66,940	66,940	11,666
Program passed through the Early Childhood Investment Corporation:								
Great Start Collaborative								
ECIC-06-GSC-Musk009	93.575	150,000	-	25,000	-	22,671	22,671	(2,329)
Program passed through the Michigan Department of Social Services:								
Medical assistance program XIX	93.778							
393		41,833	-	41,833	-	41,833	41,833	-
Total U.S. Department of Health and Human Services		12,169,884	1,137,412	6,417,188	3,367,994	5,997,828	9,365,822	718,052
U.S. Corporation for National and Community Service								
Program passed through the Michigan Department of Labor and Economic Growth:								
Learn and Serve	94.004							
MCSC / ISDLS / F-10/05		50,000	2,912	32,008	2,912	29,096	32,008	-
MCSC / ISDLS / F-10/06		49,942	-	2,294	-	-	-	(2,294)
		99,942	2,912	34,302	2,912	29,096	32,008	(2,294)
U.S. Department of Homeland Security								
Program passed through the Michigan Department of State Police:								
Homeland Security	97.004	1,334	-	1,334	-	1,334	1,334	-
U.S. Department of Labor								
Programs passed through the County of Muskegon:								
Workforce Investment Act	17.258							
27314013/WIA-04/05		310,295	37,206	104,910	310,295	3,472	313,767	(64,232)
27314013/WIA-05/06		346,116	-	293,909	-	346,116	346,116	52,207
		656,411	37,206	398,819	310,295	349,588	659,883	(12,025)
TOTAL FEDERAL ASSISTANCE		\$ 37,609,840	\$ 3,311,637	\$ 15,610,447	\$ 12,462,193	\$ 15,135,991	\$ 27,598,184	\$ 2,837,181

Muskegon Area Intermediate School District
**SCHEDULE OF RECONCILIATION OF REVENUES FROM FEDERAL
SOURCES PER FINANCIAL STATEMENTS AND EXPENDITURES PER SINGLE
AUDIT REPORT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
For the year ended June 30, 2006

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2006

Governmental funds financial statements

General Fund	\$ 1,028,668	
Special Education Fund	7,471,873	
Cooperative Education Fund	5,866,383	
Vocational Education Fund	934,952	
Other governmental funds (includes Food Service Fund)	<u>82,749</u>	\$ 15,384,625

Less state portion of Medical Assistance Program included in federal revenues
in the financial statements

(248,634)

Expenditures per single audit report

Schedule of Expenditures of Federal Awards	<u>\$ 15,135,991</u>
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Muskegon Area Intermediate School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Muskegon Area Intermediate School District.
2. *No* reportable conditions in internal control were disclosed by the audit of the financial statements.
3. *No* instances of noncompliance material to the financial statements of the Muskegon Area Intermediate School District were disclosed during the audit.
4. *No* reportable conditions in internal control were disclosed by the audit of the major federal award program.
5. The auditors' report on compliance for the major federal award program for the Muskegon Area Intermediate School District expresses an unqualified opinion.
6. There were *no* audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i> Head Start	93.600

8. The threshold for distinguishing Types A and B programs was \$454,080.
9. Muskegon Area Intermediate School District was determined to be a low-risk auditee.

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

NONE

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

SUPPLEMENTAL INFORMATION

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

October 19, 2006

Board of Education
Muskegon Area Intermediate School District
Muskegon, Michigan

We have audited the financial statements of Muskegon Area Intermediate School District as of and for the year ended June 30, 2006 and have issued our report thereon dated October 19, 2006. Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on pages 13 - 21 is provided for purposes of additional analysis and is not a required part of the financial statements or the accompanying Schedule of Expenditures of Federal Awards. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements of Muskegon Area Intermediate School District and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Brickley DeLong, PLC

Muskegon Area Intermediate School District
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS
For the year ended June 30, 2006

Muskegon Area Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

Pass-through grantee	Federal CFDA number	Pass-through grantor's number	Amount of subrecipient award	Due to (from) subrecipients July 1, 2005	Cash or payments in kind (cash basis)	Expenditures (accrual basis)			Due to (from) subrecipients June 30, 2006
						Prior year	Current year	Total	
Adult Basic Education	84.002	061190-610586							
Public Schools of the City of Muskegon			\$ 5,337	\$ -	\$ 5,065	\$ -	\$ 5,337	\$ 5,337	\$ 272
Shelby Public Schools			1,594	-	1,513	-	1,594	1,594	81
Total subrecipient amounts			<u>\$ 6,931</u>	<u>\$ -</u>	<u>\$ 6,578</u>	<u>\$ -</u>	6,931	<u>\$ 6,931</u>	<u>\$ 353</u>
Muskegon Area Intermediate School District							369		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							<u>\$ 7,300</u>		
Adult Basic Education	84.002	061130-610586							
Fruitport Community Schools			\$ 10,466	\$ -	\$ 9,012	\$ -	\$ 10,466	\$ 10,466	\$ 1,454
Orchard View Schools			48,914	-	43,835	-	48,914	48,914	5,079
Public Schools of the City of Muskegon			49,307	-	44,188	-	49,307	49,307	5,119
School District of the City of Muskegon Heights			25,114	-	-	-	16,692	16,692	16,692
Shelby Public Schools			14,029	-	12,080	-	14,029	14,029	1,949
Whitehall District Schools			22,094	-	19,800	-	22,094	22,094	2,294
Total subrecipient amounts			<u>\$ 169,924</u>	<u>\$ -</u>	<u>\$ 128,915</u>	<u>\$ -</u>	161,502	<u>\$ 161,502</u>	<u>\$ 32,587</u>
Muskegon Area Intermediate School District							18,898		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							<u>\$ 180,400</u>		
Adult Basic Education									
Orchard View Schools	84.002A	610586	<u>\$ 23,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,000</u>	<u>\$ 23,000</u>	<u>\$ 23,000</u>

Muskegon Area Intermediate School District
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS—CONTINUED
For the year ended June 30, 2006

Muskegon Area Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

<u>Pass-through grantee</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Amount of subrecipient award</u>	<u>Due to (from) subrecipients July 1, 2005</u>	<u>Cash or payments in kind (cash basis)</u>	<u>Expenditures (accrual basis)</u>			<u>Due to (from) subrecipients June 30, 2006</u>
						<u>Prior year</u>	<u>Current year</u>	<u>Total</u>	
<i>Title I</i>	84.010	051570-0506							
Berrien Intermediate School District			\$ <u>4,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,000</u>	\$ <u>4,000</u>	\$ <u>4,000</u>
Total subrecipient amounts			\$ <u>4,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	4,000	\$ <u>4,000</u>	\$ <u>4,000</u>
Muskegon Area Intermediate School District							<u>36,000</u>		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							\$ <u>40,000</u>		

Muskegon Area Intermediate School District
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS—CONTINUED
For the year ended June 30, 2006

Muskegon Area Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

Pass-through grantee	Federal CFDA number	Pass-through grantor's number	Amount of subrecipient award	Due to (from) subrecipients July 1, 2005	Cash or payments in kind (cash basis)	Expenditures (accrual basis)			Due to (from) subrecipients June 30, 2006
						Prior year	Current year	Total	
<i>Handicapped Preschool and School Program</i>									
Fruitport Community Schools	84.027	050450-0405	\$ 1,403,071	\$ 285,100	\$ 287,322	\$ 1,400,849	\$ 2,222	\$ 1,403,071	\$ -
Mona Shores Public Schools			558,272	234,974	234,974	558,272	-	558,272	-
Muskegon Technical Academy			46,617	-	15,450	31,167	15,450	46,617	-
Public Schools of the City of Muskegon			1,482,662	318,920	412,721	1,360,251	122,411	1,482,662	28,610
Reeths-Puffer Schools			1,794,202	277,495	741,306	1,313,132	481,070	1,794,202	17,259
School District of the City of Muskegon Heights			516,203	150,366	225,679	440,890	75,313	516,203	-
Timberland Charter Academy			119,386	53,698	53,698	119,386	-	119,386	-
Three Oaks Public Academy			22,740	22,740	22,740	22,740	-	22,740	-
Tri-Valley Academy			67,083	67,083	67,083	67,083	-	67,083	-
Total subrecipient amounts			6,010,236	\$ 1,410,376	\$ 2,060,973	\$ 5,313,770	696,466	\$ 6,010,236	\$ 45,869
Muskegon Area Intermediate School District			755,256				263,191		
Total expenditures appearing on Schedule of Expenditures of Federal Awards			\$ 6,765,492				\$ 959,657		
Fruitport Community Schools	84.027	060450-0506	\$ 1,596,039	\$ -	\$ 1,054,837	\$ -	\$ 1,331,688	\$ 1,331,688	\$ 276,851
Holton Public Schools			14,000	-	14,000	-	14,000	14,000	-
Mona Shores Public Schools			578,206	-	578,206	-	578,206	578,206	-
Montague Public Schools			90,522	-	90,022	-	90,522	90,522	500
Muskegon Technical Academy			43,007	-	24,715	-	24,715	24,715	-
North Muskegon Public Schools			49,954	-	49,954	-	49,954	49,954	-
Oakridge Public Schools			77,322	-	55,483	-	77,322	77,322	21,839
Public Schools of the City of Muskegon			1,450,293	-	1,023,739	-	1,339,697	1,339,697	315,958
Ravenna Public Schools			39,311	-	32,558	-	39,311	39,311	6,753
Reeths-Puffer Schools			1,860,054	-	1,066,780	-	1,082,199	1,082,199	15,419
School District of the City of Muskegon Heights			553,118	-	438,659	-	438,659	438,659	-
Timberland Charter Academy			109,907	-	50,788	-	50,788	50,788	-
Three Oaks Public Academy			34,645	-	30,724	-	34,645	34,645	3,921
Tri-Valley Academy			63,316	-	-	-	63,316	63,316	63,316
Whitehall District Schools			122,855	-	-	-	122,855	122,855	122,855
Total subrecipient amounts			6,682,549	\$ -	\$ 4,510,465	\$ -	5,337,877	\$ 5,337,877	\$ 827,412
Muskegon Area Intermediate School District			755,256				458,541		
Total expenditures appearing on Schedule of Expenditures of Federal Awards			\$ 7,437,805				\$ 5,796,418		

Muskegon Area Intermediate School District
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS—CONTINUED
For the year ended June 30, 2006

Muskegon Area Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

Pass-through grantee	Federal CFDA number	Pass-through grantor's number	Amount of subrecipient award	Due to (from) subrecipients July 1, 2005	Cash or payments in kind (cash basis)	Expenditures (accrual basis)			Due to (from) subrecipients June 30, 2006
						Prior year	Current year	Total	
<i>Handicapped Preschool and School Program—Continued</i>	84.173	050460-0405							
Fruitport Public Schools			\$ 81,133	\$ 18,374	\$ 31,119	\$ 68,388	\$ 12,745	\$ 81,133	\$ -
Mona Shores Public Schools			22,022	7,862	7,862	22,022	-	22,022	-
Public Schools of the City of Muskegon			65,485	15,301	15,301	65,485	-	65,485	-
Reeths-Puffer Schools			107,790	26,044	26,044	107,790	-	107,790	-
School District of the City of Muskegon Heights			14,488	-	-	14,488	-	14,488	-
Timberland Charter Academy			5,216	2,354	2,354	5,216	-	5,216	-
Total subrecipient amounts			296,134	\$ 69,935	\$ 82,680	\$ 283,389	12,745	\$ 296,134	\$ -
Muskegon Area Intermediate School District			4,454				2,055		
Total expenditures appearing on Schedule of Expenditures of Federal Awards			\$ 300,588				\$ 14,800		
Fruitport Community Schools	84.173	060460-0506	\$ 92,263	\$ -	\$ 54,888	\$ -	\$ 59,713	\$ 59,713	\$ 4,825
Mona Shores Public Schools			18,185	-	18,185	-	18,185	18,185	-
Orchard View Schools			10,541	-	9,747	-	10,541	10,541	794
Public Schools of the City of Muskegon			54,019	-	47,289	-	54,019	54,019	6,730
Reeths-Puffer Schools			100,551	-	97,710	-	99,210	99,210	1,500
School District of the City of Muskegon Heights			13,371	-	13,371	-	13,371	13,371	-
Timberland Charter Academy			2,562	-	2,562	-	2,562	2,562	-
Total subrecipient amounts			291,492	\$ -	\$ 243,752	\$ -	257,601	\$ 257,601	\$ 13,849
Muskegon Area Intermediate School District			2,139				1,095		
Total expenditures appearing on Schedule of Expenditures of Federal Awards			\$ 293,631				\$ 258,696		

Muskegon Area Intermediate School District
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS—CONTINUED
For the year ended June 30, 2006

Muskegon Area Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

<u>Pass-through grantee</u>	Federal CFDA number	Pass-through grantor's number	Amount of subrecipient award	Due to (from) subrecipients July 1, 2005	Cash or payments in kind (cash basis)	Expenditures (accrual basis)			Due to (from) subrecipients June 30, 2006
						Prior year	Current year	Total	
<i>Drug Free Schools and Communities Act of 1986</i>	84.186	052860-0506							
Public Schools of the City of Muskegon			\$ 26,343	\$ -	\$ 26,343	\$ -	\$ 26,343	\$ 26,343	\$ -
Muskegon Area Intermediate School District							28,045		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							\$ 54,388		
Fruitport Community Schools	84.186	062860-0506	\$ 12,238	\$ -	\$ 2,850	\$ -	\$ 7,408	\$ 7,408	\$ 4,558
Hart Public Schools			10,735	-	10,735	-	10,735	10,735	-
Holton Public Schools			7,519	-	7,519	-	7,519	7,519	-
Mona Shores Public Schools			12,336	-	11,375	-	11,375	11,375	-
Muskegon Technical Academy			1,601	-	1,601	-	1,601	1,601	-
North Muskegon Public Schools			2,481	-	2,481	-	2,481	2,481	-
Oakridge Public Schools			9,870	-	9,870	-	9,870	9,870	-
Orchard View Schools			14,724	-	14,724	-	14,724	14,724	-
Ravenna Public Schools			4,487	-	4,487	-	4,487	4,487	-
Reeths-Puffer Schools			16,254	-	16,254	-	16,254	16,254	-
Public Schools of the City of Muskegon			34,149	-	27,571	-	34,149	34,149	6,578
School District of the City of Muskegon Heights			38,444	-	34,884	-	34,884	34,884	-
Shelby Public Schools			10,203	-	10,203	-	10,203	10,203	-
Walkerville Public Schools			3,787	-	-	-	3,787	3,787	3,787
Whitehall District Schools			9,415	-	9,415	-	9,415	9,415	-
Total subrecipient amounts			\$ 188,243	\$ -	\$ 163,969	\$ -	178,892	\$ 178,892	\$ 14,923
Muskegon Area Intermediate School District							47,321		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							\$ 226,213		

Muskegon Area Intermediate School District
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS—CONTINUED
For the year ended June 30, 2006

Muskegon Area Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

Pass-through grantee	Federal CFDA number	Pass-through grantor's number	Amount of subrecipient award	Due to (from) subrecipients July 1, 2005	Cash or payments in kind (cash basis)	Expenditures (accrual basis)			Due to (from) subrecipients June 30, 2006
						Prior year	Current year	Total	
Head Start	93.600	05CH8258/06							
Fruitport Community Schools			\$ 254,546	\$ 38,978	\$ 155,437	\$ 138,087	\$ 116,459	\$ 254,546	\$ -
Hart Public Schools			178,077	23,548	74,427	127,198	50,879	178,077	-
Public Schools of the City of Muskegon			1,478,743	29,422	637,149	871,016	607,727	1,478,743	-
Orchard View Schools			785,628	32,453	421,939	396,142	389,486	785,628	-
School District of the City of Muskegon Heights			625,202	71,177	324,093	372,286	252,916	625,202	-
Shelby Public Schools			291,206	29,795	134,623	186,378	104,828	291,206	-
Whitehall District Schools			827,605	191,596	516,344	502,857	324,748	827,605	-
Total subrecipient amounts			<u>\$ 4,441,007</u>	<u>\$ 416,969</u>	<u>\$ 2,264,012</u>	<u>\$ 2,593,964</u>	1,847,043	<u>\$ 4,441,007</u>	<u>\$ -</u>
Muskegon Area Intermediate School District							705,398		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							<u>\$ 2,552,441</u>		
Fruitport Community Schools	93.600	05CH8258/07	\$ 151,471	\$ -	\$ 133,167	\$ -	\$ 151,471	\$ 151,471	\$ 18,304
Hart Public Schools			100,927	-	85,923	-	85,923	85,923	-
Public School of the City of Muskegon			897,236	-	514,793	-	891,255	891,255	376,462
Orchard View Schools			438,028	-	355,679	-	355,679	355,679	-
School District of the City of Muskegon Heights			378,124	-	309,028	-	378,124	378,124	69,096
Shelby Public Schools			184,450	-	152,650	-	184,450	184,450	31,800
Whitehall District Schools			507,873	-	285,248	-	464,180	464,180	178,932
Total subrecipient amounts			<u>\$ 2,658,109</u>	<u>\$ -</u>	<u>\$ 1,836,488</u>	<u>\$ -</u>	2,511,082	<u>\$ 2,511,082</u>	<u>\$ 674,594</u>
Muskegon Area Intermediate School District							802,861		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							<u>\$ 3,313,943</u>		

Muskegon Area Intermediate School District
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS—CONTINUED
For the year ended June 30, 2006

Muskegon Area Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

Pass-through grantee	Federal CFDA number	Pass-through grantor's number	Amount of subrecipient award	Due to (from) subrecipients July 1, 2005	Cash or payments in kind (cash basis)	Expenditures (accrual basis)			Due to (from) subrecipients June 30, 2006
						Prior year	Current year	Total	
<i>Medical Assistance Program XIX</i>	93.778	393							
Fruitport Public Schools			\$ 7,001	\$ -	\$ 7,001	\$ -	\$ 7,001	\$ 7,001	\$ -
Holton Public Schools			543	-	543	-	543	543	-
Mona Shores Public Schools			1,798	-	1,798	-	1,798	1,798	-
Montague Area Public Schools			130	-	130	-	130	130	-
North Muskegon Public Schools			24	-	24	-	24	24	-
Oakridge Public Schools			1,431	-	1,431	-	1,431	1,431	-
Orchard View Schools			1,319	-	1,319	-	1,319	1,319	-
Public Schools of the City of Muskegon			14,337	-	14,337	-	14,337	14,337	-
Ravenna Public Schools			349	-	349	-	349	349	-
Reeths-Puffer Schools			1,026	-	1,026	-	1,026	1,026	-
School District of the City of Muskegon Heights			3,903	-	3,903	-	3,903	3,903	-
Timberland Charter Academy			25	-	25	-	25	25	-
Whitehall District Schools			324	-	324	-	324	324	-
Total subrecipient amounts			\$ 32,210	\$ -	\$ 32,210	\$ -	32,210	\$ 32,210	\$ -
Muskegon Area Intermediate School District							9,623		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							\$ 41,833		

Muskegon Area Intermediate School District
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS—CONTINUED
For the year ended June 30, 2006

Muskegon Area Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

Pass-through grantee	Federal CFDA number	Pass-through grantor's number	Amount of subrecipient award	Due to (from) subrecipients July 1, 2005	Cash or payments in kind (cash basis)	Expenditures (accrual basis)			Due to (from) subrecipients June 30, 2006
						Prior year	Current year	Total	
<i>Learn and Serve</i>	94.004	MCSC / ISDLS / F-10/05							
Mona Shores Public Schools			\$ 4,050	\$ -	\$ 4,050	\$ -	\$ 4,050	\$ 4,050	\$ -
Muskegon Technical Academy			3,175	-	2,625	-	2,625	2,625	-
Reeths-Puffer Schools			<u>3,175</u>	<u>-</u>	<u>1,232</u>	<u>-</u>	<u>1,232</u>	<u>1,232</u>	<u>-</u>
Total subrecipient amounts			<u>\$ 10,400</u>	<u>\$ -</u>	<u>\$ 7,907</u>	<u>\$ -</u>	<u>7,907</u>	<u>\$ 7,907</u>	<u>\$ -</u>
Muskegon Area Intermediate School District							21,189		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							<u>\$ 29,096</u>		

Muskegon Area Intermediate School District
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUBRECIPIENTS—CONTINUED
For the year ended June 30, 2006

Muskegon Area Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

Pass-through grantee	Federal CFDA number	Pass-through grantor's number	Amount of subrecipient award	Due to (from) subrecipients July 1, 2005	Cash or payments in kind (cash basis)	Expenditures (accrual basis)			Due to (from) subrecipients June 30, 2006
						Prior year	Current year	Total	
<i>Workforce Investment Act</i>	17.258	27314013/WIA-05/06							
Fruitport Public Schools			\$ 73,314	\$ -	\$ 60,839	\$ -	\$ 73,314	\$ 73,314	\$ 12,475
Public Schools of the City of Muskegon			81,365	-	81,365	-	81,365	81,365	-
Orchard View Schools			24,356	-	24,356	-	24,356	24,356	-
School District of the City of Muskegon Heights			46,609	-	46,609	-	46,609	46,609	-
Shelby Public Schools			44,778	-	40,926	-	44,778	44,778	3,852
Whitehall District Schools			75,694	-	68,433	-	75,694	75,694	7,261
Total subrecipient amounts			<u>\$ 346,116</u>	<u>\$ -</u>	<u>\$ 322,528</u>	<u>\$ -</u>	346,116	<u>\$ 346,116</u>	<u>\$ 23,588</u>
Muskegon Area Intermediate School District							-		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							<u>\$ 346,116</u>		

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 19, 2006

Michigan Department of Education
Lansing, Michigan

Muskegon Area Intermediate School District respectfully advises you that there were *no* audit findings or questioned costs reported in our single audit report, dated November 1, 2005, for the year ended June 30, 2005.

Sincerely,

A handwritten signature in black ink that reads "Marios Demetriou". The signature is written in a cursive, flowing style.

Marios Demetriou
Associate Superintendent

CORRECTIVE ACTION PLAN

October 19, 2006

Michigan Department of Education
Lansing, Michigan

Muskegon Area Intermediate School District respectfully submits the following Corrective Action Plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2006

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 provided *no* findings in either Section B or Section C. Accordingly, there are *no* matters requiring corrective action as shown below.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

There were *no* compliance findings and *no* reportable conditions.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

There were *no* compliance findings and *no* reportable conditions in relation to the major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Marios Demetriou at (231) 767-7207.

Sincerely,



Marios Demetriou
Associate Superintendent